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MEMORANDUM

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2006 DEC 29 P 1:21

FROM: Ernest G. Johnson  
Director  
Utilities Division

*EA for EGJ*

AZ CORP COMMISSION  
DOCUMENT CONTROL

DATE: December 29, 2006

RE: JOHNSON UTILITIES COMPANY - APPLICATION FOR AN EXTENSION  
OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY DOCKET NO.  
WS-02987A-06-0663

Attached is the Staff Report for Johnson Utilities Company. Staff recommends approval with conditions.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and Thirteen Copies

Arizona Corporation Commission

DOCKETED

DEC 29 2006

DOCKETED BY	<i>WLL</i>
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Docket No. WS-02987-04-0869

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STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

JOHNSON UTILITIES COMPANY

DOCKET NO. WS-02987-06-0663

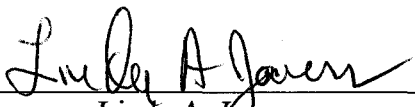
APPLICATION FOR AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND NECESSITY

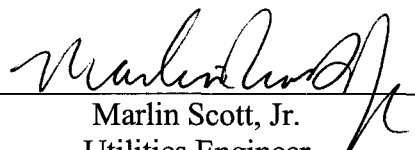
DECEMBER 29, 2006

## STAFF ACKNOWLEDGEMENT

The Staff Report for Johnson Utilities Company, Docket No. WS-02987-06-0663 was prepared by the Staff members listed below. Linda Jaress performed the review and analysis of the Company's application and Marlin Scott, Jr. performed the engineering analysis.

Contributing Staff:

  
\_\_\_\_\_  
Linda A. Jaress  
Executive Consultant III

  
\_\_\_\_\_  
Marlin Scott, Jr.  
Utilities Engineer



**EXECUTIVE SUMMARY**  
**JOHNSON UTILITIES COMPANY**  
**DOCKET NO. WS-02987A-06-0663**

Johnson Utilities Company ("Johnson Utilities" or "the Company") provides water and wastewater service in various portions of Pinal County. On October 16, 2006, Johnson Utilities filed an application for approval to extend the area of its Certificate of Convenience and Necessity ("CC&N"). The requested area is comprised of three sections of land which are contiguous to the Company's current water and wastewater certificated area. A development known as Skyview Farms is planned in the extension area. Approximately 1,200 water and wastewater customers are expected in the extension area by the end of five years.

For a small portion of the extension area, there is no request for service. If it were not included in the extension area, this area would constitute a very small island surrounded on four sides by Johnson Utilities. No party has come forward expressing a desire to serve the area, no landowners have expressed a desire to be deleted from the extension area and there are no other water or sewer providers within several miles.

Johnson Utilities has experience providing water and wastewater service and is in compliance with the rules and regulations of the various relevant government agencies. Staff concludes that the existing water and wastewater systems will have adequate source production, storage capacity and wastewater treatment capacity to serve the existing customers and proposed CC&N extension area within a conventional five year planning period and the Company can reasonably be expected to develop additional production, storage and wastewater treatment capacity as required in the future. The cost estimates and plans to serve the extension area are reasonable. Therefore, Staff believes that the Company is fit and proper to further extend its service territory and recommends approval of the extension.

Staff recommends the following:

1. The Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, copies of the Approval to Construct ("ATC") for the water facilities and the General Permit for the wastewater facilities needed to serve the requested area.
2. The Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the Aquifer Protection Permit ("APP") amendment that indicates approval of the expansion of the Section 11 WWTP to 4.0 MGD.
3. The Company update or amend its "Designation of Assured Water Supply" to include the service areas in this CC&N extension application. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a

copy of such an amended Arizona Department of Water Resources ("ADWR") certificate.

4. The Company charge its approved rates and charges to customers in the extension area until further order of the Commission.

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## **Introduction**

Johnson Utilities Company ("Johnson Utilities" or "the Company") provides water and wastewater service in various portions of Pinal County. On October 16, 2006, Johnson Utilities filed an application for approval to extend the area of its Certificate of Convenience and Necessity ("CC&N"). The requested area is comprised of three sections of land which are contiguous to the Company's current water and wastewater certificated area.

The Utilities Division Compliance Section showed no outstanding compliance issues for the Company. The Company filed the Amended Franchise with Pinal County including the extension area with its application.

A development known as Skyview Farms is planned in the extension area. Approximately 1,200 water and wastewater customers are expected in the extension area by the end of five years. Exhibit 1 is a map and legal description of the area requested.

## **Requests for Service**

Johnson Utilities received requests for service from both Skyview Farms and the City of Florence to serve the vast majority of the area proposed. However, for a small portion of the extension area approximately one quarter of a Section, there is no request for service. If it were not included in the extension area, this area would constitute a very small island surrounded on four sides by Johnson Utilities. The Company is requesting inclusion of the area as a matter of efficiency; to avoid the time and expense of requesting approval of a CC&N extension on a piecemeal basis for very few potential customers. Staff agrees that it may be inefficient to leave that area out of the proposed extension. No party has come forward expressing a desire to serve the area, no landowners have expressed a desire to be deleted from the extension area and there are no other water or sewer providers within several miles.

## **The Water System**

The Company recently interconnected its three water systems into what was previously known as the Johnson System. The Company's plant includes 14 wells producing 7,245 gallons per minute, 2.75 million gallons of storage capacity, and a distribution system serving approximately 15,850 service connections.

Attached as Exhibit 2 is Staff's Engineering Report which describes the Johnson Utilities' water system and capacity in further detail. The Report concludes that the existing water system will have adequate source production and storage capacity to serve the existing customers and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production and storage capacity as required in the future. The Report also determines that the cost estimate for the water facilities for the proposed development of \$17.9 million is reasonable.

### **Compliance - Water**

The Arizona Department of Environmental Quality ("ADEQ") determined that the Johnson water system had no deficiencies and determined this water system was delivering water that met water quality standards required by Arizona Administrative Code, Title 18, on March 21, 2006. The Company indicated its arsenic levels for its well source range from 2 parts per billion ("ppb") to 8 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.

The ADEQ Certificate of Approval to Construct ("ATC") for water facilities for the requested area has not been submitted by the Company. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the ATC for the water facilities needed to serve the requested area.

The Company is located within the Phoenix Active Management Area ("AMA") and is in compliance with the Arizona Department of Water Resources ("ADWR") reporting and conservation requirements. Because the extension area is within the Phoenix AMA, ADWR requires each developer to demonstrate an assured water supply for the entire development. Presently, the Company holds a "Designation of Assured Water Supply" for its existing service area. Staff recommends that the Company shall update or amend its "Designation of Assured Water Supply" to include the service areas in this CC&N extension application. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of such an amended ADWR certificate.

### **The Wastewater System**

Staff's Engineering Report also describes the Company's wastewater plant. The Company operates three wastewater systems; Section 11, Precision and Pecan Systems. The requested area will be served by the Section 11 System consisting of a 2.0 million gallon per day ("MGD") extended aeration and aerobic lagoon treatment plant currently serving approximately 9,200 service laterals. This system has the capacity to serve 11,500 laterals which is larger than needed to serve the extension area along with current customers.

### **Compliance - Wastewater**

ADEQ has indicated the Section 11 wastewater system was in compliance with ADEQ regulations on March 28, 2006. The ADEQ General Permit for wastewater facilities for the requested area has not been submitted by the Company. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the General Permit for the wastewater facilities needed to serve the requested area.

The Company was issued an Aquifer Protection Permit ("APP") and Section 208 Plan Amendment for its 2.0 MGD Section 11 wastewater treatment plant and the Company will be filing an amendment in 2007 to increase the capacity to 4.0 MGD. According to the Company, its approved 208 Plan amendment for the plant is for 17.0 MGD at build out. Since an APP and the Section 208 Plan amendments designate a wastewater service area and a wastewater provider, Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the APP amendment that indicates approval of the expansion of the Section 11 WWTP to 4.0 MGD. Staff finds the cost to provide service to the wastewater extension area of \$18,964,300 to be reasonable.

### **Financing**

The Company expects to finance the additional utility facilities needed to serve the extension are primarily with advances in aid of construction and hook-up fees.

### **Conclusions and Recommendations**

Johnson Utilities has experience providing water and wastewater service and is in compliance with the rules and regulations of the relevant government agencies. Staff concludes that the existing water and wastewater systems will have adequate source production, storage capacity and wastewater treatment capacity to serve the existing customers and proposed CC&N extension area within a conventional five year planning period and the Company can reasonably be expected to develop additional production, storage and wastewater treatment capacity as required in the future. The cost estimates and plans to serve the extension area are reasonable. Therefore, Staff believes that the Company is fit and proper to further extend its service territory and recommends approval of the extension.

Staff recommends the following:


1. The Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, copies of the ATC for the water facilities and the General Permit for the wastewater facilities needed to serve the requested area.
2. The Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the APP amendment that indicates approval of the expansion of the Section 11 WWTP to 4.0 MGD.
3. The Company update or amend its "Designation of Assured Water Supply" to include the service areas in this CC&N extension application. Staff further recommends that the Company file with Docket Control, as a compliance item in


this docket within two years of the effective date of an order in this proceeding, a copy of such an amended ADWR certificate.

4. The Company charge its approved rates and charges to customers in the extension area until further order of the Commission.

# MEMORANDUM

TO: Linda Jaress  
Executive Consultant III  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: November 21, 2006

RE: **JOHNSON UTILITIES, L.L.C. (DOCKET NO. WS-02987A-06-0663)**

The area requested by Johnson for an extension for water and wastewater has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

:bsw

Attachments

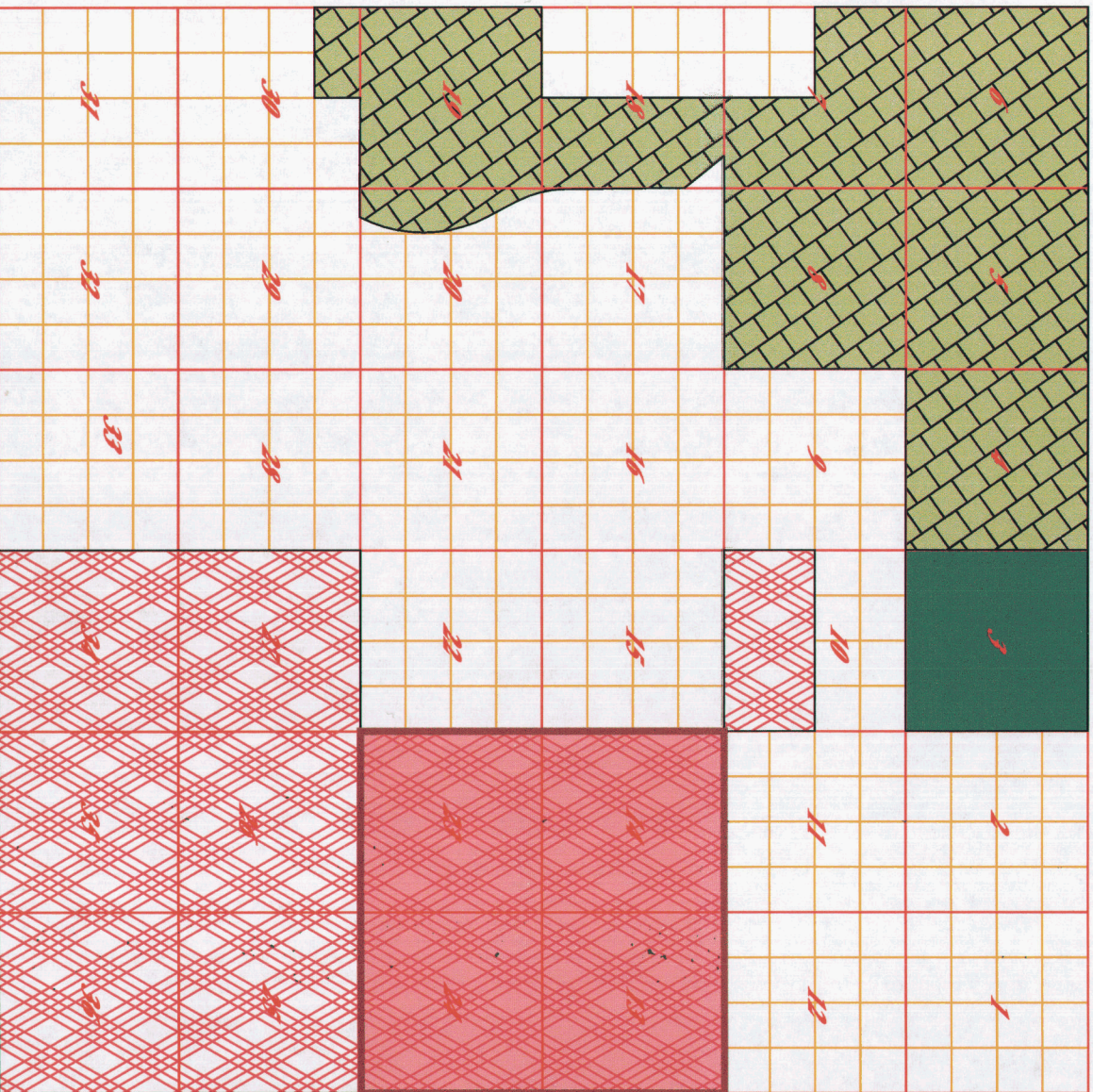
cc: Mr. Richard Sallquist  
Ms. Deb Person (Hand Carried)  
File



# COUNTY: Pinal

RANGE 9 East

TOWNSHIP 4 South



WS-2987 (6)

Sewer

Johnson Utilities Company



C-0005 (4)

Sewer

City of Florence (Nonjurisdictional)



Johnson Utilities Company

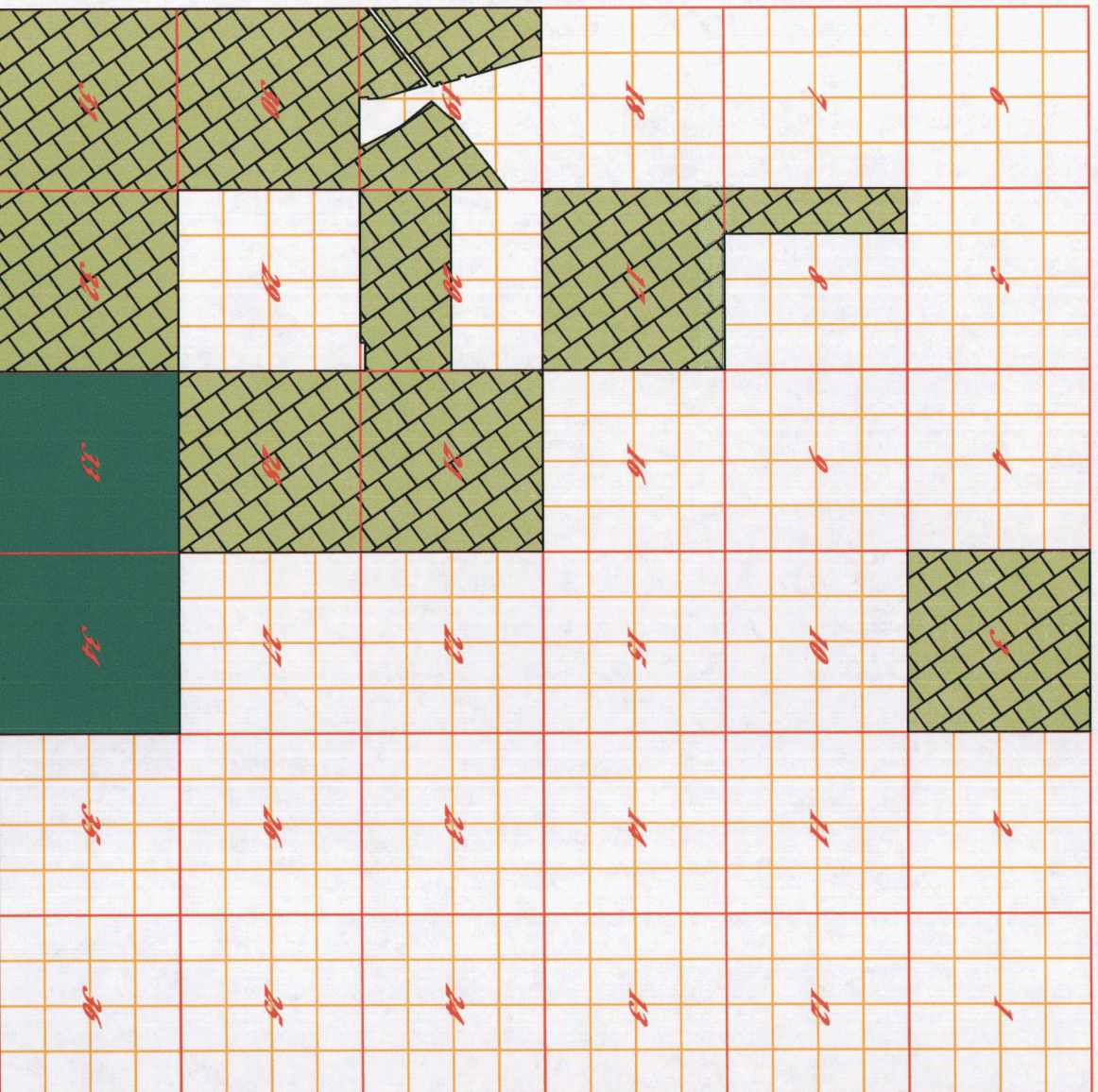
Docket No. WS-02987A-06-0663

Application for Extension for Water & Sewer



# COUNTY: Pinal

RANGE 9 East



TOWNSHIP 3 South



WS-2987 (6)

Johnson Utilities Company



Sewer



Johnson Utilities Company

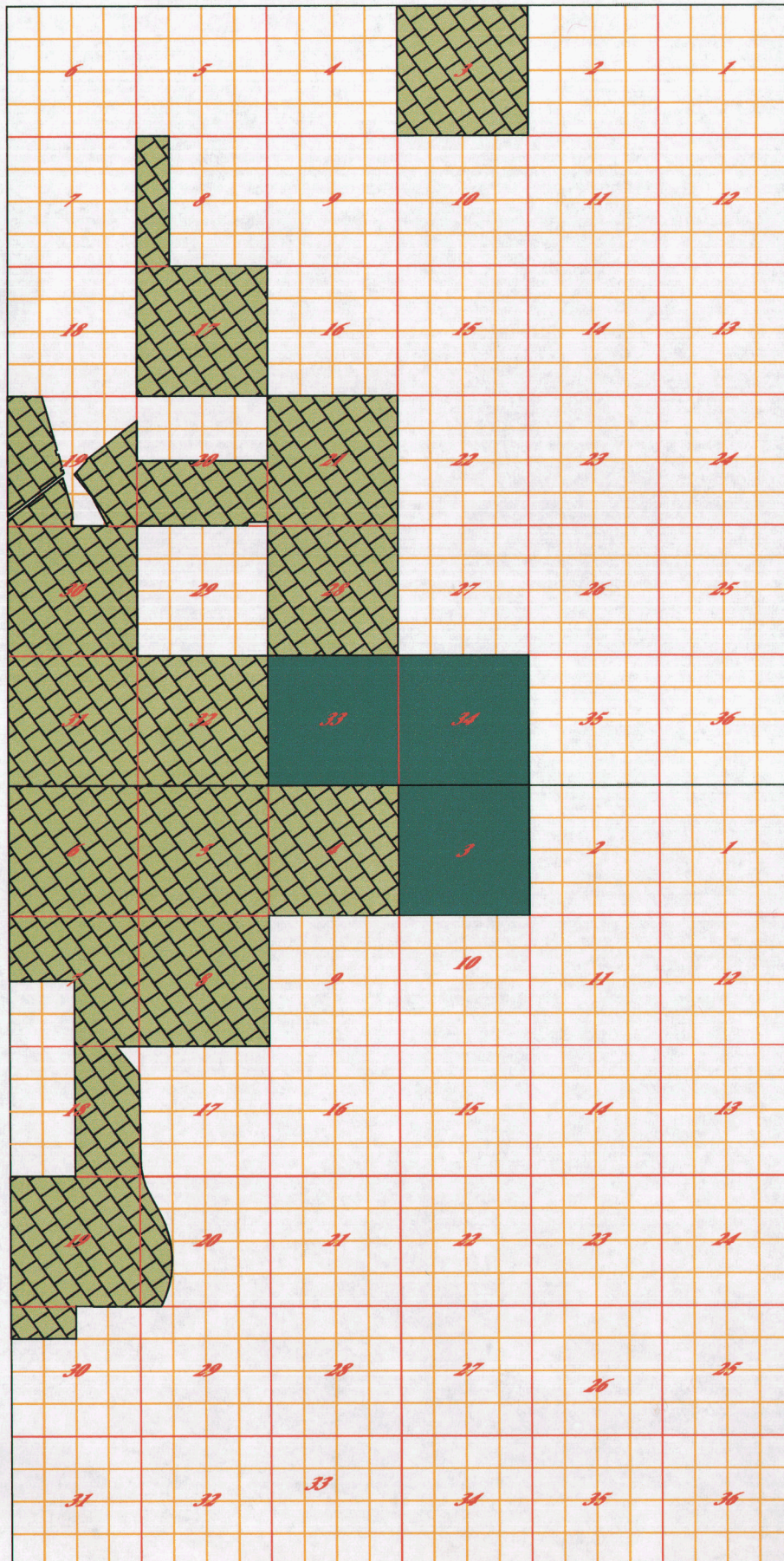
Docket No. WS-02987A-06-0663

Application for Extension for Water & Sewer



**COUNTY:** *Pinal*

**RANGE 9 East**



WS-2987 (6)

Johnson Utilities Company

Sewer



Johnson Utilities Company

Docket No. WS-02987A-06-0663

Application for Extension for Water & Sewer




**Legal Description**

ALL OF SECTIONS 33 AND 34, TOWNSHIP 3 SOUTH, RANGE 9 EAST; AND ALL OF SECTION 3, TOWNSHIP 4 SOUTH, RANGE 9 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA.

## MEMORANDUM

DATE: December 19, 2006

TO: Linda Jaress  
Executive Consultant III

FROM: Marlin Scott, Jr.   
Utilities Engineer

RE: Johnson Utilities Company – Water and Wastewater Divisions  
Docket No. WS-02987A-06-0663 (CC&N Extensions)

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### **Introduction**

Johnson Utilities L.L.C. dba Johnson Utilities Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") for its water and wastewater divisions. The requested area will add three square-mile or 1,920 acres to the Company's existing 63.0 square-miles of water certificated area and 76.0 square-miles of wastewater certificated area to provide service to the proposed developments known as Skyview Farms. The Company serves the communities between Queen Creek and Florence in Pinal County.

### **Capacities**

#### Existing Water Utility Plants

The Company interconnected its three water systems; Johnson (Public Water System (PWS) #11-128), Sun Valley and Wildhorse Systems. According to water use data submitted by the Company, the modified Johnson System has 14 wells producing 7,245 gallons per minute ("GPM"), 2.75 million gallons of storage capacity, and distribution system serving approximately 15,850 service connections as of September 2006.

Based on historical growth rates, it is anticipated that the existing water service area could grow to approximately 29,000 connections at the end of five years. The Company has predicted an additional 1,200 connections for the proposed CC&N extension at the end of five years, resulting in a projected total customer base of approximately 30,200 at the end of five years. Based on the existing well production and storage capacities, the Johnson System can serve approximately 25,000 service connections.

Existing Wastewater Utility Plants

The Company operates three wastewater systems; Section 11, Precision and Pecan Systems. The requested area will be served by the Section 11 System consisting of a 2.0 million gallon per day ("MGD") extended aeration and aerobic lagoon treatment plant currently serving approximately 9,200 service laterals.

Using the historical annual growth rate for the Company-wide service area of 1.5%, it is anticipated that the existing Section 11 System wastewater service area could grow to approximately 9,900 laterals at the end of five years. In this application, the Company has predicted an additional 1,200 laterals for the proposed CC&N extension at the end of five years, resulting in a projected total customer base of approximately 11,100 laterals at the end of five years. Based on the existing Section 11 treatment plant capacity, the system can serve approximately 11,500 service laterals.

Proposed Water and Wastewater Plant Facilities

The Company anticipates the costs to serve the new area to reach \$36,877,350. The facilities for this area will be constructed as needed. The development will be funded through advances in aid of construction and hook-up fees to construct the following facilities:

Water:

1. Off-site plant facilities	\$ 7,371,640
2. On-site plant facilities	\$10,541,410
	-----
Subtotal:	\$17,913,050 (Revised from \$16,962,716)

Wastewater:

3. 2.0 MGD WWTP	\$10,000,000
4. Off-site plant facilities	\$ 1,524,460
5. On-site plant facilities	\$ 7,439,840
	-----
Subtotal:	\$18,964,300
	=====
Total:	\$36,877,350

The Aquifer Protection Permit for the Section 11 WWTP is permitted for a capacity of 2.0 MGD and the Company will be filing an amendment in 2007 to increase the capacity to 4.0 MGD. According to the Company, its approved 208 Plan amendment for the plant is for 17.0 MGD at build out.

### Conclusions

Staff concludes that the Company's existing water and wastewater systems will have adequate well production, storage and wastewater treatment capacities to serve the existing customers and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production, storage and wastewater treatment as required in the future.

Staff concludes that the proposed water and wastewater plant facilities for the proposed development and its cost estimate totaling \$36,877,350 appear reasonable. However, no "used and useful" determination of the proposed water and wastewater plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

#### Compliance Status

Based on compliance information submitted by the Company, the Johnson water system, PWS #11-128, had no deficiencies and ADEQ has determined this water system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

ADEQ has indicated the Section 11 wastewater system, Inventory #103081, is in compliance with ADEQ regulations.

#### Certificate of Approval to Construct/General Permit

The ADEQ Certificate of Approval to Construct ("ATC") for water facilities and the General Permit for wastewater facilities needed to serve the requested area has not been submitted by the Company. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, copies of the ATC for the water facilities and the General Permit for the wastewater facilities needed to serve the requested area.

#### Arsenic

The Company indicated its arsenic levels for its well source range from 2 parts per billion ("ppb") to 8 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.

#### Aquifer Protection Permit ("APP") and Section 208 Plan Amendment

The Company was issued a signed APP, dated April 10, 2006, for its 2.0 MGD Section 11 wastewater treatment plant and the Company will be filing an amendment in 2007 to

increase the capacity to 4.0 MGD. According to the Company, its approved 208 Plan amendment for the plant is for 17.0 MGD at build out. Since an APP and the Section 208 Plan amendments represent fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the APP amendment that indicates approval of the expansion of the Section 11 WWTP to 4.0 MGD.

### **Arizona Department of Water Resources ("ADWR") Compliance**

#### **Compliance Status**

The Company is located within the Phoenix Active Management Area ("AMA") and is in compliance with ADWR's reporting and conservation requirements.

#### **Designation of Assured Water Supply**

The extension area is within the Phoenix AMA. As such, each developer will be required to demonstrate an assured water supply from ADWR for the entire development. Presently, the Company holds a "Designation of Assured Water Supply" for its existing service area. It is assumed that the Company will continue to elect this alternative. Therefore, Staff recommends that the Company shall update or amend its "Designation of Assured Water Supply" to include the service areas in this CC&N extension application. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of such an amended ADWR certificate.

### **Arizona Corporation Commission Compliance**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

#### **Curtailment Tariff**

The Company has an approved curtailment tariff that became effective on July 9, 2005.

#### **Backflow Prevention Tariff**

The Company has an approved backflow prevention tariff that became effective on June 30, 1997.



## **Summary**

### Conclusions

- A. Staff concludes that the existing water and wastewater systems will have adequate source production, storage capacity and wastewater treatment capacity to serve the existing customers and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production, storage and wastewater treatment capacity as required in the future.
- B. Staff concludes that the proposed water and wastewater plant facilities for the proposed development and its cost estimate totaling \$36,877,350 appear reasonable. However, no "used and useful" determination of the proposed water and wastewater plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.
- C. ADEQ regulates the Johnson water system under PWS #11-128. Based on compliance information submitted by the Company, this system had no deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
- D. ADEQ regulates the Company's wastewater system under Inventory #103081 and have indicated the facility is in compliance with ADEQ regulations.
- E. The Company indicated its arsenic levels for its well source range from 2 to 8 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.
- F. The Company is within the Phoenix AMA and is in compliance with their reporting and conservation requirements.
- G. A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.
- H. The Company has an approved curtailment tariff that became effective on July 9, 2005.
- I. The Company has an approved backflow prevention tariff that became effective on June 30, 1997.

### Recommendations

- 1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this

proceeding, copies of the ATC for the water facilities and the General Permit for the wastewater facilities needed to serve the requested area.

2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of the APP amendment that indicates approval of the expansion of the Section 11 WWTP to 4.0 MGD.
3. Staff recommends that the Company shall update or amend its "Designation of Assured Water Supply" to include the service areas in this CC&N extension application. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket within two years of the effective date of an order in this proceeding, a copy of such an amended ADWR certificate.